

April 15, 1999

## **Senate Today Votes on Bill Providing Tax Benefits to Armed Forces Members in Yugoslavia**

Under a unanimous consent agreement, the Senate, upon receiving H.R. 1376, will vote on its passage. This will be preceded by one hour of debate on S. 767, the Coverdell bill. At press time, it was anticipated the House would pass H.R. 1376 this afternoon (the bill was to be taken up under a one-hour rule, after having been reported from the House Ways & Means Committee, H. Rept. No. 106-90, on April 13). The bill provides tax relief for personnel serving in Yugoslavia and other areas related to the military operations in Kosovo (known as Operation Allied Force).

This paper is intended to provide a brief overview of this legislation.

H.R. 1376 would extend current-law tax treatment pertaining to service in a combat zone (as defined under Sec. 7508 of the Internal Revenue Code) to individuals serving in the theater of operations of Operation Allied Force. Its effective date is March 24, 1999 (and in this respect, is similar to an executive order issued by President Clinton on April 13, 1999). Unlike President Clinton's executive order, it also would apply tax filing extensions to military personnel who are serving outside their normal duty station and outside the United States as part of Operation Allied Force. The termination date for those serving in the affected Yugoslavia area would be declared by the president in a subsequent executive order.

For affected military personnel, the bill provides tax benefits to:

- exclude hazardous duty combat pay (a salary bonus for serving in a hostile area) from income for tax purposes;
- extend deadlines for filing tax returns (e.g., troops who receive hazardous duty pay in Yugoslavia will not be required to file 1998 taxes during the time of their service and for 180 days afterward);
- forgive income taxes and reduce the estate taxes of active service personnel who die in the combat zone or from wounds incurred in the combat zone;
- exempt military pay from income for any month in which (during any part of that month) military personnel serve in a combat zone;

— exempt toll telephone service that originates in a combat zone from the 3-percent telephone excise tax; and

— permit spouses to file a joint return even if the military spouse becomes missing in action as a result of service in a combat zone.

**Combat Zone Designation:** Existing tax law allows for individuals (both military and non-military personnel — such as Red Cross, civilians acting under or in support of the Armed Forces, and accredited correspondents) to defer the payment of taxes already due, and, further the law exempts from taxes certain income earned during the period of time they are in the designated area. This designation is made by the president by executive order and lasts until terminated by another executive order. [President Clinton on April 13, 1999, issued a yet-to-be-numbered executive order, entitled, “Designation of Federal Republic of Yugoslavia (Serbia/Montenegro), Albania, the Airspace Above, and Adjacent Waters as a Combat Zone,” thus meeting this designation.] This designation has been regularly given — including Operation Desert Storm, Operations Joint Endeavor and Joint Forge (Bosnia: 1995 and 1998) and Operation Able Sentry (Macedonia) — in recent years.

**Combat Zone Benefits:** Section 7508 of the Internal Revenue Code designates 11 separate acts for which tax filing and payment are suspended. In addition, all enlisted pay (and commissioned officer pay up to the highest enlisted grade — a senior E9 — \$4,503 per month in 1999) is exempted from federal taxation. In addition, toll telephone calls from the designated area are exempted from the federal 3-percent federal excise tax.

**Cost:** The Joint Committee on Taxation estimated that the bill would reduce federal revenues by \$22 million from 1999-2009. However, the President’s executive order removes virtually all of this cost for budget purposes.

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